

Message Text

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ACTION STR-07

INFO OCT-01 NEA-10 IO-13 ISO-00 STRE-00 SSO-00 NSCE-00

USIE-00 INRE-00 AGRE-00 CEA-01 CIAE-00 COME-00

DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05 L-03

LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 ITC-01

TRSE-00 SP-02 SOE-02 OMB-01 DOE-11 OIC-02 /106 W

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E.O. 11652: N/A

TAGS: ETRD, GATT, IS

SUBJECT: GATT COUNCIL - ISRAELI REQUEST TO RAISE
SPECIFIC DUTIES

1. ISRAELI DEL HAS INDICATED THAT GOI INSISTS ON PUTTING
ITEM ON AGENDA IN HOPES THAT CPS WILL BE ABLE TO SUPPORT
ISRAELI REQUEST AND AGREE TO A DECISION AT MARCH 14
MEETING. ISRAELI DEL INDICATES THAT THEY ARE FLEXIBLE
ON THE EXACT CONTENT OF THE DECISION. THEY ARE SUG-
GESTING THAT THE CPS TAKE THE DECISION IN THE SPIRIT
OF ARTICLE II:6(A) AND WILL CIRCULATE THE FOLLOWING TEXT:

"ON 10 NOVEMBER 1974 THE GOVERNMENT OF ISRAEL REDUCED
THE PAR VALUE OF THE ISRAEL POUND TO POUNDS 6.00 PER
ONE U.S. DOLLAR. FOLLOWING THAT DEVALUATION THE
COUNCIL, AT ITS MEETING ON 7 FEBRUARY 1975 APPROVED
A REQUEST MADE BY ISRAEL UNDER ARTICLE II:6(A) OF
THE GENERAL AGREEMENT (L/4134) TO ADJUST THE SPECIFIC
DUTIES CONTAINED IN SCHEDULE XLII ACCORDINGLY.

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"SINCE THAT DATE THE VALUE OF THE ISRAELI POUND HAS
BEEN REDUCED A NUMBER OF TIMES UNDER A POLICY OF
FREQUENT SMALL DEPRECIATIONS WITH RESPECT TO A
COMPOSITE OF CURRENCIES. ON 28 OCTOBER 1977 THE
GOVERNMENT OF ISRAEL DECIDED TO CEASE TO DETERMINE
THE RATE OF EXCHANGE FOR THE ISRAELI POUND AND AS OF

THAT DATE ISRAEL MAINTAINS A FLOATING EXCHANGE RATE SYSTEM.

"THE REPRESENTATIVE RATE OF THE BANK OF ISRAEL FOR THE ISRAELI POUND ON 17 FEBRUARY 1978 WAS POUND 15.99 PER ONE U.S. DOLLAR. IN VIEW OF THE FACT THAT THIS REPRESENTS A REDUCTION IN THE VALUE OF THE ISRAELI POUND OF MORE THAN TWENTY PER CENTUM, AS COMPARED WITH THE VALUE AT THE TIME THE COUNCIL AGREED TO THE ADJUSTMENT OF THE SPECIFIC DUTIES, ISRAEL NOW SEEKS ONCE AGAIN THE CONCURRENCE OF THE CONTRACTING PARTIES TO ADJUST THE SPECIFIC DUTIES IN SCHEDULE XLII IN ORDER TO TAKE ACCOUNT OF THE REDUCTIONS IN THE VALUE OF THE ISRAELI POUND SINCE 10 NOVEMBER 1974.

"AT THE MEETING OF THE COUNCIL ON 11 NOVEMBER 1977 ISRAEL ALREADY GAVE NOTICE OF ITS INTENTION TO SEEK THE CONCURRENCE OF THE CONTRACTING PARTIES TO SUCH A STEP. ON THAT OCCASION THE REPRESENTATIVE OF ISRAEL PROVIDED THE COUNCIL WITH DETAILS ON ISRAEL'S NEW ECONOMIC POLICY AND, IN PARTICULAR, ON ITS FOREIGN EXCHANGE REGIME. IT NOW ASKS THAT THIS REQUEST FOR ADJUSTMENT OF ITS SPECIFIC DUTIES BE INCLUDED IN THE AGENDA OF THE FORTHCOMING MEETING OF THE COUNCIL, FOR ITS CONSIDERATION IN ACCORDANCE WITH THE PRINCIPLES OF ARTICLE II:6(A). IT STANDS READY TO PROVIDE LIMITED OFFICIAL USE

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AT THAT MEETING ANY ADDITIONAL INFORMATION WHICH MIGHT BE RELEVANT TO THAT REQUEST."

2. COMMENT: AS NOTED GENEVA 3071, WE DO NOT EXPECT DISSENT IN PRINCIPLE TO THE IDEA THAT A CP SHOULD BE ALLOWED TO ADJUST SPECIFIC RATES IN A REGIME OF FLOATING EXCHANGE RATES IF ITS CURRENCY HAS DEPRECIATED BY GREATER THAN 20 PERCENT. WE NOTE, HOWEVER, THAT THE ISRAELI DRAFT CONTINUES TO MAKE ITS CALCULATIONS IN TERMS OF THE U.S. DOLLAR, AND WE QUESTION WHETHER THIS IS THE APPROPRIATE YARDSTICK IN A FLOATING SYSTEM. ROSSLER (GATT SECRETARIAT) ARGUES THAT THE MEASUREMENT OF DEPRECIATION SHOULD BE BASED ON A BASKET OF CURRENCIES USING TRADE WEIGHTS. WE BELIEVE THAT THE IMF SHOULD BE ASKED TO GIVE AN OPINION ON THE PROPER MEASUREMENT TO USE IN APPLYING THE SPIRIT OF ARTICLE II:6(A) IN A FLOATING EXCHANGE SYSTEM. IF THE IMF IS PREPARED TO MAKE SUCH A STATEMENT AT THE MARCH 14 COUNCIL AND THE ISRAELIS MAKE THE NECESSARY ADJUSTMENTS TO THEIR DRAFT TO REFLECT THE IMF VIEW, WE RECOMMEND USDEL BE AUTHORIZED TO SUPPORT COUNCIL DECISION. VANDEN HEUVEL

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